

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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## Bush 2007 Budget: Record Deficits and Wrong Choices

### Overview

Over the last four years, the Administration has produced the four biggest deficits in history, and the 2006 deficit of \$423 billion is projected to be the largest of all. Clearly, this Administration's policies continue to take the budget in the wrong direction. Aside from the large deficits, the budget reflects the Administration's decision to impose harmful cuts on important services for average Americans while protecting benefits for narrow interests. Finally, there is far less than meets the eye in some of the Administration's high-profile budget initiatives.

***The Largest Deficit in History*** — The Administration estimates that the deficit for 2006 will be \$423 billion, the largest in history. This deficit is \$105 billion larger than the 2005 deficit of \$318 billion. The deficit for 2006 without using the Social Security surplus is even higher, over \$600 billion. Even if the Administration's 2006 estimate proves to be too large, it is clear that the deficits for 2003, 2004, 2005, and 2006 are the four largest in American history.

### Another Record Deficit

*The Last Four Years, The Four Largest Deficits in History*

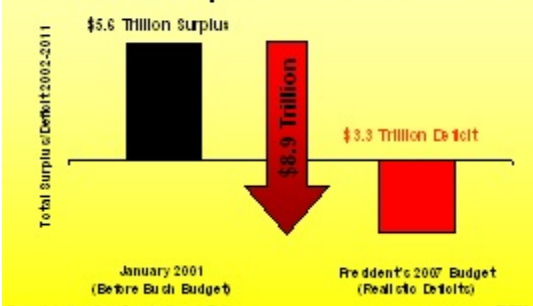
Rank	Year	Deficit
1st	2006	-\$423 Billion
2nd	2004	-\$412 Billion
3rd	2003	-\$378 Billion
4th	2005	-\$318 Billion

Prepared by the Democratic Budget Committee, January 2006

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### Surplus Declines \$8.9 Trillion Under Republican Policies



### ***Budget Deterioration Under This Administration***

***Totals \$8.9 Trillion*** — When this Administration took office, it inherited a projected ten-year surplus (2002-2011) of \$5.6 trillion. Based on a realistic estimate of the President's policies, that surplus has now become a \$3.3 trillion deficit over the same period of time, a dramatic fiscal reversal of \$8.9 trillion.

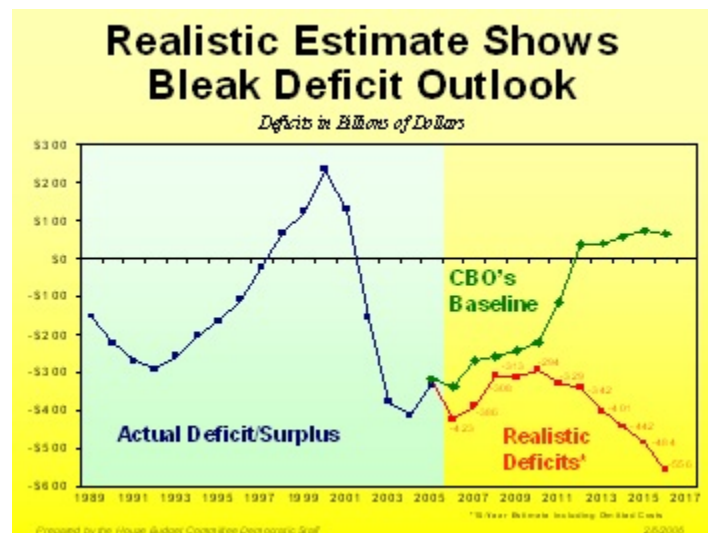
***Administration Protects Narrow Interests While Cutting Services for Average Americans*** —

The Administration's budget makes shortsighted cuts to investments and services that typical Americans care about. The budget cuts funding for education, Medicare, and Medicaid, and increases fees paid by our veterans and Medicare premiums paid by some seniors. At the same time, the budget protects provisions benefitting narrow interests – such as \$10 billion in unnecessary Medicare subsidies to preferred provider organizations. It also includes another round of large tax cuts targeted primarily to the most fortunate among us.

***Administration Budget Promises: Less Than Meets the Eye*** — The budget fails to live up to some of the high-profile claims made by this Administration. For example, the Administration claims to be committed to providing affordable health care for Americans, but this budget includes increases in Medicare premiums, more cuts to Medicaid and Medicare, and a misguided plan for health savings accounts that will shift more of the cost of health care onto individual consumers. The budget also shows that there is less than meets the eye to the Administration's American Competitiveness Initiative. Of the \$5.9 billion provided for this initiative for 2007, more than three-quarters of the total goes to an extension of the existing research and development tax credit. The President also claims that he is a strong supporter of math and science education programs. At the same time, though, his budget cuts the funding that helps students attend college.

***True Picture Is Even Worse Than Administration's Numbers Reveal*** — The Administration's budget does not reveal the full extent of the deficit problem that its policies have created.

- First, the Administration's budget shows no deficit figures at all after the first five years, thus masking the \$1.5 trillion deficit impact (2012-2016) of the Administration's tax cuts and the \$631 billion deficit impact of the Administration's Social Security privatization plan over the same period of time.
- Second, the budget omits a realistic estimate of the following costs:
  - ▶ full repair of the Alternative Minimum Tax (AMT), which increases the deficit by \$844 billion over the next ten years if the Administration's tax cuts are extended;
  - ▶ realistic costs for ongoing operations in Iraq and Afghanistan, which total \$298 billion over the next ten years beyond the amounts included in the President's budget, according to a Congressional Budget Office (CBO) scenario.
- When these omitted costs, including debt service, are factored into the estimates, the deficit over the next ten years (2007-2016) is \$3.9 trillion, with triple-digit deficits never falling below \$294 billion per year.



## Deficits Much Worse than Administration Acknowledges

Unified Deficit in Billions of Dollars

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Bush Budget</b>	<b>-354</b>	<b>-223</b>	<b>-208</b>	<b>-183</b>	<b>-205</b>					
Bush Budget Including Omitted Items	<b>-386</b>	<b>-308</b>	<b>-313</b>	<b>-294</b>	<b>-329</b>	<b>-342</b>	<b>-401</b>	<b>-442</b>	<b>-484</b>	<b>-556</b>

## Deficits and Debt

**Record Deficits and No Plan to Balance the Budget** — The Administration minimizes its track record of four record deficits in the last four years, and claims that progress is being made on the deficit. In fact, since this Administration took office, the budget outlook has gotten continually worse. The Bush Administration's first budget estimated a surplus for 2006 of \$305 billion; today's 2006 deficit estimate of \$423 billion thus represents a \$728 billion deterioration under this Administration for this year alone. The same trend is evident in the deficit projections made for fiscal year 2007.



Bush Administration's surplus/deficit projection (in billions of dollars)	FY 2006	FY 2007
February 2001	\$305	\$340
February 2002	\$86	\$104
February 2003	-\$201	-\$178
February 2004	-\$268	-\$241
February 2005	-\$390	-\$312
February 2006	-\$423	-\$354

All surplus/deficit figures include the impact of the Administration's proposed policies.

***Administration Claims of Progress Are Unconvincing*** — The Administration claims that it is making progress on the deficit, and that the deficit is on track to be cut in half over five years. A closer examination of these claims demonstrates that they are not supported by the evidence.

- **Understating Deficits** – The Administration generates deficit numbers that appear to show modest improvement relative to 2004 by omitting items fundamental to a realistic forecast – such as a repair of the AMT and a full accounting of likely ongoing war costs. When omitted items are included, the realistic 2009 deficit of \$313 billion is about the same size as the deficit for 2005, proving that the Administration is not making progress on the deficit.
- **Short-Term Focus Obscures True Picture** – The Administration’s claim to be cutting the 2004 deficit in half over five years, by 2009, might lead some to think that the budget is on a linear path and will completely eliminate the deficit by the end of ten years. But the realistic estimates presented here show that, on the contrary, by the end of the ten-year window (2014), the deficit under Administration policies is likely to balloon to \$442 billion.
- **Questionable Standard of Progress** – The standard of progress the Administration sets for itself is dubious: turning a record surplus in 2000 into a record deficit by 2004 and then digging only halfway out of that deficit hole by 2009 fails to constitute an achievement.

***Administration’s Budget Requires Another Increase in the Debt Limit*** — In 2001, this Administration’s first budget estimated that its policies would require no debt limit increase until 2008. In fact, the Administration has requested – and the Republican Congress has granted – three debt ceiling increases totaling \$2.2 trillion. In December, Treasury Secretary Snow wrote to Congress to request a fourth debt limit increase, and the \$781 billion debt limit increase currently pending brings the total increases to more than \$3 trillion.

**Republicans Increase the Debt Limit by \$3 Trillion**

*Debt Limit Increases, Billions of Dollars*

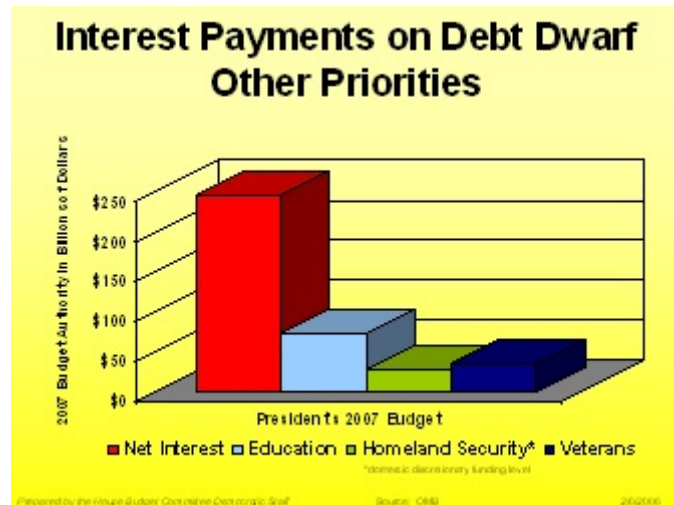
June 2002	\$450
May 2003	\$984
November 2004	\$800
Pending Increase	\$781
<b>Total Increases</b>	<b>\$3,015</b>

***Deficits Undermine Long-Term Economic Strength*** — The Administration has claimed that its record deficits are “manageable,” but mainstream economists agree that large, persistent deficits undermine the long-term strength of the economy. Such deficits put upward pressure on interest rates, crowd out private investment, and diminish prospects for sustained economic growth. Former Federal Reserve Chairman Alan Greenspan recently warned that if these large budget deficits are not addressed, “at some point these deficits would cause the economy to stagnate or worse.”

***Growing Debt Burdens Future Generations and Wastes Resources on Interest Payments —***

This Administration's persistent deficits simply pass the cost of current policies — plus interest — to our children and grandchildren in the form of a growing national debt. Meanwhile, although these interest payments are obligatory, they nevertheless consume resources that would be used more productively for other priorities if the debt and resulting interest payments were smaller.

The interest paid on this debt is one of the fastest growing parts of the federal budget and dwarfs the size of federal expenditures on such high priorities as education, homeland security, and veterans' health care. According to the Administration's own numbers, interest payments on the national debt in 2007 alone will total \$247 billion. By 2011 that figure will climb to \$322 billion.



***Administration Policies Spend the Social Security Surplus*** — The Administration's deficit policies call for spending all of the Social Security surplus every year for the next ten years and beyond. A total of \$2.5 trillion will be spent over the next ten years to pay for the day-to-day operations of government, rather than being saved for Social Security, a far cry from the Administration's 2001 pledge that its budget would save "all of Social Security surplus (\$2.6 trillion) for Social Security." (Fiscal Year 2002 Budget, page 7)

## **Harmful Cuts, Fees, and Freezes**

***\$17.2 Billion in Cuts to Medicaid*** — The budget includes legislative cuts to Medicaid of \$4.9 billion over five years, and another \$12.2 billion in cuts through regulatory changes, for total gross cuts of \$17.2 billion over five years. (The budget also reinvests \$3.2 billion in Medicaid over five years, for a net effect of \$14.0 billion in Medicaid legislative and regulatory cuts.) Cuts of this magnitude cannot be found by simply closing loopholes — the pain will be felt somewhere, either by shifting costs to beneficiaries or states, or cutting payments to providers which can undermine their ability to provide care to the uninsured.

***Cuts Medicare by \$105 Billion Over Ten Years*** — The budget cuts Medicare by \$105 billion over ten years by reducing payments for providers in traditional Medicare. Providers facing payment cuts include: hospitals (for both inpatient and outpatient services), skilled nursing facilities, home health, inpatient rehabilitation facilities, ambulances, laboratories, and durable medical equipment.



***Raises Medicare Premiums for Certain Beneficiaries*** — Under the Medicare Prescription Drug, Improvement and Modernization Act (MMA), certain upper-middle income seniors will pay higher premiums for Medicare Part B starting in 2007. The budget expands this policy so that it will affect more seniors. A total of \$1.9 billion of the \$105 billion in ten-year Medicare savings comes from this change.

***Cuts Job Training*** — Although the Administration emphasizes the importance of creating a workforce able to compete in a global environment, the President's budget block-grants and then cuts funding for employment and training programs by \$761 million (12.0 percent) below the 2006 level.

***Eliminates 43 Education Programs, "Saving" \$4.1 Billion*** — Despite publicizing \$380 million for math and science education, the budget more than offsets that new funding with \$4.1 billion of discretionary savings from eliminating 43 programs in the Department of Education. The programs include elementary and secondary education programs, programs to improve high school achievement and help low-income children prepare for college, and several programs that provide grants to help students pay for college.

***Cuts Funding for Existing Programs Under the No Child Left Behind Act (NCLB)*** — The President's budget cuts overall funding for existing NCLB programs, freezes Title I at \$12.7 billion, and provides only \$24.0 billion overall – \$15.4 billion below the authorized level – even when funding for its new high school and math programs is included.

***Cuts Funding for Higher Education*** — The budget cuts the amount of funding it provides to help students pay for college. The budget holds the maximum Pell Grant award at \$4,050, where it has been frozen since 2003 while the average tuition and fees at a four-year public college have risen \$1,393. It eliminates eight higher education programs, and freezes the rest at the 2006 enacted level.

***Enrollment Fee and Increased Co-payments for Veterans*** — The budget imposes a \$250 annual enrollment fee for VA health care services and increases pharmacy co-payments from \$8 to \$15 for Priority 7 and Priority 8 veterans. These are veterans without service-connected disabilities rated above zero percent who have incomes above \$26,903. The budget assumes collections totaling \$2.6 billion over five years from raising fees on veterans. Both of these policies were proposed in the last three budgets and Congress rejected them each time.

***Increased Medical Care Fees for Military Retirees*** — The budget increases enrollment fees and deductibles for military retirees under the age of 65. This proposal assumes savings of \$735 million for 2007.

***Environmental Protection Measures Cut*** — For 2007, the President's budget once again cuts funding for the Environmental Protection Agency (EPA), providing \$7.3 billion in appropriations, a \$304 million decrease from the 2006 enacted level. This is mainly attributable to cuts in programs ensuring the provision of clean water.

***Cuts Community Development Block Grants (CDBGs)***— The budget provides \$3.0 billion for CDBG formula grants, a \$736 million cut below last year’s level.

***Eliminates Community Services Block Grant*** — The budget eliminates the Community Services Block Grant and other community services programs, cutting \$670 million for a range of services to reduce poverty, and provide housing and health assistance, nutrition, energy, and health and substance abuse assistance.

***Cuts Local Law Enforcement Assistance*** — The budget cuts local law enforcement assistance by eliminating programs including the Edward Byrne grants and justice assistance grants.

***Budget Takes Some Low-Income Families Off of Food Stamps*** — The budget cuts spending by \$706 million over five years by making it more difficult for certain families receiving Temporary Assistance for Needy Families to qualify for food stamps.

***Budget Eliminates the Commodity Supplemental Food Program*** — The Commodity Supplemental Food Program provides food packages for low-income women, infants, and children as well as low-income elderly persons. The program was funded at \$111 million for 2006.

***Cuts Amtrak Funding*** — The President’s budget provides only \$900 million for Amtrak, a cut of \$394 million, or 30.4 percent, from the 2006 enacted level. The budget provides \$500 million for Amtrak’s capital expenses (a \$272 million cut from the 2006 enacted level), but it does not provide any direct funding to cover Amtrak’s operating expenses. Instead, the President’s budget provides \$400 million in “efficiency incentive grants,” which the Department of Transportation, at its sole discretion, may issue to Amtrak for operating expenses based on the progress Amtrak makes in undertaking the Administration’s reform initiatives.

***Freezes Funding for NIH*** — After doubling the NIH budget from 1998 to 2003, the budget provides \$28.4 billion for 2007, virtually a freeze at the 2006 enacted level, and a cut of \$642 million below the amount needed to maintain purchasing power at the 2006 level.

## **Rhetoric Vs. Reality**

***Promises for Health Care Not Met*** — In the State of the Union address, the President touted the government’s responsibility to provide health care for the poor and elderly, and set forth a goal of confronting rising health costs for all Americans. Despite these claims, the budget cuts Medicare by \$35.9 billion over five years and \$105 billion over ten years, and raises premiums for certain seniors. The budget also cuts health care for low-income children, families, disabled, and elderly by making gross cuts to Medicaid of \$17.2 billion over five years through a package of legislative and regulatory changes. Even after some reinvestments back into the program, the Medicaid cuts still reach \$14 billion over five years. As for affordability, the Administration focuses almost exclusively on health savings accounts and high-deductible health plans – forms of health insurance that serve to shift more health care costs onto consumers.

***Budget Fails to Support Students*** — The Administration claims to be providing aggressive leadership in educating America’s students, yet the budget cuts appropriations to help students attend college, cuts funding for high school achievement programs by almost \$600 million, and drastically cuts the funding to keep children safe during and after school. For instance, although the budget includes a new high school reform initiative, it more than offsets that funding by eliminating all vocational education programs as well as three programs that help low-income students prepare to attend college. It eliminates eight higher education programs that account for \$848 million in “savings,” and it freezes the maximum Pell Grant award at \$4,050, although average tuition and fees at a four-year public college have risen by \$1,393 since the last Pell increase in 2003. And these cuts come just days after Congress passed the Republican reconciliation spending cut bill, which cut \$12 billion from planned spending on student loans over five years (2006-2010).

***“American Competitiveness Initiative:” Less Than Meets the Eye*** — The budget touts a new \$5.9 billion initiative to increase federal research funding and to train more teachers in math and science. In fact, though, most of the funding – \$4.6 billion – simply extends the existing research and development tax credit through 2007. The initiative spreads \$1.3 billion in new funding across the National Science Foundation, the Department of Energy’s Office of Science, the National Institute of Standards and Technology’s research programs, and the Department of Education. Most of the \$380 million to improve elementary and secondary school teaching of math and science comes at the cost of current education technology programs, which the budget eliminates entirely. Despite the Administration’s claims of support for research efforts, the budget essentially freezes funding for the National Institutes of Health. Finally, the initiative recycles a prior Administration proposal to let certain people obtain job training through personal accounts of up to \$3,000, but the budget does not provide new money for this purpose.

## **Taxes**

***Administration’s Tax Agenda Increases the Deficit*** — The Administration’s stated tax agenda reduces revenues by \$1.7 trillion over ten years (2007-2016). When the cost of a ten-year repair of the AMT is factored in – along with the cost of servicing the additional debt caused by this tax agenda – the Administration’s tax policies worsen the deficit by \$3.0 trillion.

***Tax Cuts Do Not “Pay for Themselves;” Revenues Collected After Tax Cuts Are Below Projected Levels*** — Some advocates claimed that the 2001 tax cuts would generate such large growth in income that revenue collected would be higher after the tax cuts due to an expanded tax base, implying that the tax cuts would “pay for themselves.” The deterioration in tax receipts since 2001 shows this not to be the case. The Administration’s first budget projected that tax revenues would amount to \$11.4 trillion between 2001 and 2005. After five years of budget deficits, the tax cuts have failed to produce the expected results, instead raising just \$9.6 trillion since 2001 – \$1.8 trillion below the projected level.



***Revenues as a Percentage of GDP Are Near Lowest Level in Decades*** — Under the Administration’s policies, revenues as a percentage of Gross Domestic Product (GDP) are estimated to be 17.5 percent for 2006. This low level of revenues is well below historical averages. During this Administration, revenues as a percent of GDP have averaged 17.6 percent — about a full percentage point below the average over the two decades prior to the start of this Administration.

***Tax Cuts Provide the Most Benefit to the Most Fortunate*** — The bulk of the President’s tax cuts are focused on those taxpayers at the top of the income distribution who are least in need of tax relief. The Brookings-Urban Tax Policy Center estimates that the extension of the President’s tax cuts would result in almost half of the total tax cut, 45 percent, going to the four percent of filers with incomes over \$200,000. Those tax filers with incomes in excess of \$1 million would receive an average tax cut in 2010 of approximately \$155,000, about one hundred times the tax cut for the average taxpayer. In addition to raising concerns about fairness, a tax cut disproportionately targeted to the most fortunate distributes the benefits of the tax break in a way that does not adequately stimulate aggregate consumer demand.

***The President’s Tax Cuts Place Undue Burden on Social Security Revenues*** — The growth in the unified federal budget deficit would have been even greater if not for the excess Social Security payroll tax revenues generated over the past few years. By cutting taxes on unearned income, such as capital gains, inheritance, and dividend income, the President’s tax agenda increases the reliance on payroll taxes and makes the tax code more regressive. Social insurance taxes now comprise 37 percent of federal revenues, up from 32 percent in 2000; the budget maintains this high proportion, collecting 36 percent of the revenue from social insurance taxes in 2011. This shift in revenue source not only places an undue burden on those taxpayers whose primary income is from wages and salary, but it also weakens the nation’s Social Security system.

## **Appropriations Overview**

***Budget Increases Non-Emergency Appropriations But Slashes Domestic Funding*** — The President’s budget provides \$870.7 billion in regular appropriations for 2007, which is \$2.1 billion above the amount needed to maintain purchasing power at the 2006 level and \$27.3 billion above the \$843.3 billion in non-emergency funding provided for 2006. However, as shown in the table below, despite the increase in total appropriations, the President’s budget cuts funding for regular domestic services by \$16.8 billion below the amount needed to maintain purchasing power, and by \$5.3 billion below the 2006 enacted level. This overall cut includes cuts to many domestic agencies, including the Departments of Education, Transportation, Justice, Housing and Urban Development, and Health and Human Services. In contrast, the budget increases non-emergency appropriations for the other categories of discretionary funding: defense funding increases to \$459.7 billion, which is \$15.1 billion above the amount needed to maintain purchasing power at the 2006 level; international affairs funding rises to \$35.1 billion; and domestic homeland security increases to \$29.3 billion.

**Total Funding for Appropriated Programs**  
(Budget Authority in Billions of Dollars)

	<b>2006</b>	<b>2007 Baseline</b>	<b>2007 Request</b>	<b>Request v. Baseline</b>
<u>Non-Emergency Amounts:</u>				
Domestic Non-Homeland Security	351.8	363.4	346.5	-16.8
National Defense	432.4	444.6	459.7	+15.1
International Affairs	31.4	32.1	35.1	+3.0
Homeland Security	27.6	28.5	29.3	+0.8
<b>Total Non-Emergency Appropriations</b>	<b>843.3</b>	<b>868.6</b>	<b>870.7</b>	<b>+2.1</b>
<u>Emergency Amounts:</u>				
Iraq/Afghanistan Supplemental Funds*	120.0	n.a.	50.0	n.a.
Hurricane Katrina-Related Funds**	22.6	n.a.	0.0	n.a.
Avian Flu Emergency Funds	3.8	n.a.	2.3	n.a.
<b>Total including emergencies</b>	<b>989.8</b>	<b>n.a.</b>	<b>923.0</b>	<b>n.a.</b>

\*Congress has appropriated \$50 billion for the war for 2006. The President's budget includes an additional \$70 billion for 2006, and \$50 billion as a down payment for 2007.

\*\*Congress has provided \$4.6 billion for hurricane relief for 2006, and the President's budget includes \$18.0 billion more.

National Defense represents Function 050, which includes DOD and nuclear weapons-related activities of the Department of Energy. Homeland Security is non-defense, non-international discretionary appropriations.

**More Emergency Funding for 2006 and 2007** — The President's budget provides an additional \$88.0 billion in supplemental emergency funding for 2006; it also provides \$52.3 billion in emergency funding for 2007, comprised of \$50 billion as a down payment on 2007 war costs and \$2.3 billion to take steps to prevent an avian flu pandemic. For 2006, Congress has already provided \$58.4 billion in emergency supplemental funding: \$50 billion for Iraq and Afghanistan, \$4.6 billion for Hurricane Katrina-related expenses, and \$3.8 billion for avian flu. The additional \$88.0 billion in the President's budget for 2006 includes \$70 billion for the war and \$18 billion for hurricane relief.

## Mandatory Programs

### **Budget Includes \$77 Billion in Gross**

**Mandatory Spending Cuts** — The budget cuts spending on selected mandatory programs by \$77.2 billion over five years through a

### **Mandatory Spending in the President's Budget, 2007-2011**

(billions of dollars)

Program Cuts/User Fees	-77.2
Social Security Private Accounts	81.6
Other Program Increases	16.8
<b>Net Change</b>	
<i>Including SS Private Accounts</i>	21.2
<i>Excluding SS Private Accounts</i>	-60.4

combination of service reductions and fee increases. The largest spending cuts affect Medicare (\$35.9 billion) and the Pension Benefit Guaranty Corporation (\$16.7 billion). Other cuts include \$5.0 billion from agriculture commodity programs, \$4.9 billion from Medicaid, \$4.0 billion from allowing oil drilling in the Arctic National Wildlife Refuge (with an additional \$4.0 billion distributed to the State of Alaska), \$2.0 billion from the refundable portions of the child and earned income tax credits, and \$706 million from restricting eligibility for food stamps.

Part of the Medicaid cut is offset by \$3.2 billion in new spending, and part of the food stamp cut is offset by \$589 million in new spending. Other spending increases include \$81.6 billion for Social Security private accounts, \$7.5 billion for the health tax credit, \$2.1 billion for grants to states for the chronically ill, \$1.6 billion for Temporary Assistance to Needy Families, and \$560 million for flood insurance. Total mandatory spending increases in the budget other than Social Security private accounts amount to \$16.8 billion. Including Social Security private accounts, the net effect of the service reductions, new fees, and new spending initiatives in the budget is to increase mandatory spending by \$21.2 billion over five years relative to current law. Excluding Social Security private accounts, the President's budget on net reduces mandatory spending by \$60.4 billion over five years relative to current law.

## **Social Security**

***President's Social Security Plan Worsens Deficit and Cuts Benefits*** — The budget includes the President's plan to convert part of Social Security into a system of private accounts. The diversion of payroll taxes into private accounts adds \$712.1 billion to the deficit over the next ten years. This ten-year figure understates the true fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2010. The plan adds trillions of dollars to the federal publicly held debt over the next six decades. The plan also makes steep reductions in traditional Social Security benefits for most workers. A worker 25 years old today who earns average wages, for example, will receive a traditional Social Security benefit under the plan that is about half of what he or she is scheduled to receive under current law. Proceeds from his or her private account will not be guaranteed to make up the difference. The President announced his plan in 2005 and traveled around the country to promote it, but the plan failed to win the support of the American public or Congress.

***Budget Includes Other Social Security Spending Cuts*** — The budget cuts spending on Social Security by \$2.2 billion over five years relative to current law through four policy changes: eliminate the lump-sum death benefit, require school attendance by child beneficiaries age 16 and up, enforce provisions related to pensions from employment not covered by Social Security, and change the disability insurance/workers compensation offset.

## Health Care

### **Medicaid and Medicare**

**Overall Gross Cuts to Medicaid of \$17.2 Billion Over Five Years** — The budget includes legislative cuts to Medicaid of \$4.9 billion over five years, and another \$12.2 billion in cuts through regulatory changes, for total gross cuts of \$17.2 billion over five years. The budget also reinvests \$3.2 billion in Medicaid over five years, for a net effect of \$14.0 billion in Medicaid legislative and regulatory cuts.

**Legislative Cuts to Medicaid of \$4.9 Billion Over Five Years and \$11.9 Billion Over Ten Years** — Immediately on the heels of a \$6.9 billion cut to Medicaid over five years (\$28.3 billion over ten years) in the FY 2006 Republican reconciliation spending cut bill (S. 1932), the Administration is now proposing an additional \$4.9 billion in legislative cuts to Medicaid over 5 years and \$11.9 billion in legislative cuts over

ten years. Cuts of this magnitude cannot be found by simply closing loopholes — the pain will be felt somewhere, either by shifting costs to beneficiaries or states, or cutting payments to providers which can undermine their ability to provide care to the uninsured.

The detrimental effects of these new cuts only compound the harm created by the cuts from S. 1932. That legislation will result in higher co-payments for health care services for 13 million low-income individuals (including 4.5 million children), higher co-payments for prescription drugs for 20 million individuals (including 6.6 million children), the loss of coverage for 65,000 people because they cannot afford higher premiums, and benefit cuts for at least 1.6 million people.

The new cuts include changes to the federal/state partnership to finance Medicaid by limiting how some states draw down matching dollars and use provider taxes, cuts to payments for targeted care case management, cuts to Medicaid administrative funding, and changes to prescription drug benefits by allowing states to use managed formularies.

**Reinvests \$3.2 Billion of Medicaid Cuts Back Into the Program** — Of the \$4.9 billion in legislative cuts to Medicaid over five years, \$3.2 billion is reinvested in Medicaid over five years.

<b>Gross Medicaid Cuts of \$17.2 Billion Over Five Years (all dollars in billions)</b>		
	2006 - 2011	2006 - 2017
Legislative Cuts	-\$4.9	-\$11.9
Regulatory Cuts	-\$12.2	NA
<b>Total Gross Medicaid Cuts</b>	<b>-\$17.2</b>	<b>NA</b>
Reinvestments in Medicaid	\$3.2	NA
Total net cuts to Medicaid	-\$14.0	NA

***Cuts Medicare by \$105 Billion Over Ten Years*** — The budget cuts Medicare by \$35.9 billion over five years and \$105 billion over ten years by reducing payments for providers in traditional Medicare. Providers facing payment cuts include: hospitals (for both inpatient and outpatient services), skilled nursing facilities, home health, inpatient rehabilitation facilities, ambulances, laboratories, and durable medical equipment.

***Creates Automatic Across-the-Board Cut in Medicare*** — The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) requires the Medicare trustees to estimate in each of their annual reports the point at which Medicare general revenues – as compared to premiums and payroll taxes – will finance at least 45 percent of Medicare costs. Once the trustees estimate in two successive reports that this 45-percent level will be reached within the next six years, the President is required to include a proposal in his next budget to cut Medicare spending. The budget builds on this provision, imposing an across-the-board cut to all Medicare providers of 0.4 percent in the year the threshold is exceeded if Congress does not enact spending cuts before then. The across-the-board cut will become deeper in each subsequent year, until legislation is enacted to cut spending.

***Raises Medicare Premiums for Certain Beneficiaries*** — Under the MMA, certain upper-middle income seniors will pay higher premiums for Medicare Part B starting in 2007. The income thresholds that trigger the higher premiums are supposed to be adjusted for inflation, but the budget removes this protection. If the premium is not indexed for inflation, more and more average seniors – far more than the original estimate of 2.8 million affected seniors – will reach the income threshold for higher premiums every year. A total of \$1.9 billion of the \$105 billion in ten-year Medicare savings comes from this change.

***Fails to Address Medicare Physician Payment Cut*** — The recently passed Republican reconciliation spending bill prevented a scheduled 4.4 percent cut in physician payments for 2006, but physicians are still slated to receive a cut in 2007 and additional cuts in the following years. The budget does not include a fix for this Medicare physician payment issue – the budget just professes support for remedies that base physician payment updates on quality measures and that are budget neutral.

### **Health Savings Accounts and High-Deductible Health Plans**

***Provides \$156.2 Billion to Promote Health Savings Accounts*** — The President's budget includes \$156.2 billion for a package of policies that promote health savings accounts (HSAs) and high-deductible health plans (HDHPs). The Medicare Prescription Drug, Improvement and Modernization Act of 2003 created HSAs, which allow tax-free deposits into, and withdrawals from, an account for qualified medical expenses as long as the individual purchases a HDHP. In 2006, the HDHP must have a deductible of at least \$1,050 for an individual (\$2,100 for a family), and must limit out-of-pocket expenses for covered benefits to \$5,250 for an individual (\$10,500

for families.) Contributions into the HSA cannot exceed the deductible or an annual limit, whichever is lower. Tax-free withdrawals from the HSA can be used for deductibles, co-payments, and uncovered medical costs.

The Administration's emphasis on HSAs and HDHPs is part of an effort to shift more of the cost of health care onto individual consumers, and to move away from comprehensive health coverage. These proposals promoting HSAs are likely to undermine the existing employer-based system of health coverage, and could actually increase the number of uninsured by giving employers an incentive to drop or reduce health coverage. Furthermore, HSAs mainly benefit the healthy and the wealthy since this type of coverage is most attractive to those who have low health care costs and are in higher tax brackets.

- ***Tax-Free Contributions to HSAs*** — The budget increases the amount an individual and/or employer can put tax-free into the HSA, so that it is as high as the catastrophic cap. This is an increase from current law, which limits the HSA contributions to the lesser of a deductible or an annual limit. In addition, the budget includes a tax credit for payroll taxes paid on HSA contributions made by individuals.

- ***Tax Preferences for HDHP Premiums*** — The budget repeats a proposal from prior years to make premiums for high deductible health plans (HDHPs) tax deductible for individuals who purchase them separately from an employer. In addition, the budget includes a tax credit for payroll taxes paid on earnings being used to cover HDHP premiums.

- ***Tax Credits for HSAs*** — The budget provides tax credits to low-income families to assist with the purchase of HDHPs, at a ten-year cost of \$24 billion. The tax credit is limited to \$3,000 for a family, and a portion of the credit can be deposited into the HSA.

<b>Administration Spends \$156 Billion for High-Deductible Health Plans and Health Savings Accounts FY07 to FY16 (dollars in billions)</b>	
	FY07 - FY16
Expand Health Savings Accounts*	\$90.7
Provide an above-the-line deduction for high-deductible health plan premiums*	\$41.3
Provide refundable tax credit*	\$24.1
Improve the Health Coverage Tax Credit	\$0.1
<b>Total, Health Tax Policy Proposals</b>	<b>\$156.2</b>

\*Includes outlay effects

***Cuts Funding for Public Health Programs*** — The budget provides \$50.8 billion for appropriated health programs, a cut of \$126 million below the 2006 enacted level.



***Freezes Funding for NIH*** — After doubling the NIH budget from 1998 to 2003, the budget provides \$28.4 billion for 2007, virtually a freeze at the 2006 enacted level, and a cut of \$642 million below the amount needed to maintain purchasing power at the 2006 level.

## **Education**

***Cuts Education Funding by \$2.1 Billion*** — Despite the Administration's stated intent to strengthen American competitiveness by focusing on improving students' knowledge of math and science, the President's budget significantly reduces federal education funding and outright eliminates 42 programs for which Congress appropriated \$3.5 billion less than two months ago, plus the Perkins Loan program, which received no new capital funding in 2006. In all, the budget provides \$54.4 billion for the Department of Education (ED), a cut of \$2.1 billion below the comparable 2006 enacted level; it is even below the 2005 and the 2004 funding levels. The cuts are across the budget, including elementary and secondary education programs under the No Child Left Behind Act, vocational and high school programs, and the amount of aid for college students.

***New Initiatives Replace Prior Funding*** — The budget includes a new high school reform program but more than offsets this new funding by eliminating \$2.1 billion for existing high school programs – including eliminating all vocational education programs – for a net cut of \$596 million in funding aimed at improving high school achievement. Likewise, the \$380 million for math and science education that is part of the budget's American Competitiveness Initiative is funded primarily by eliminating all of ED's funding for educational technology. The budget cuts overall funding for teacher quality improvement programs below the 2006 enacted level.

***Most Programs Cut or Frozen, While a Total of 43 Are Eliminated*** — The budget provides scant increases beyond the new programs – which are funded by eliminating similar existing programs – discussed above. It ends the Perkins Loan program by recalling all prior federal contributions to revolving funds that colleges currently use to make loans. In 2007, that recall adds \$664 million to ED's budget. In all, the budget cuts \$4.1 billion by eliminating 43 current programs that cover elementary, secondary, and higher education programs – including not only all vocational education and technology programs but also the \$346 million Safe and Drug-Free School state grant program and the \$311 million TRIO Upward Bound program.

***No Increases for Higher Education*** — The budget cuts the amount of aid it provides to help students pay for college. It freezes the maximum Pell Grant award at \$4,050 – where it has been held for five straight years while the average tuition and fees at a four-year public college have risen \$1,393. It eliminates eight higher education programs that currently receive \$848 million.

And because the recently passed Republican reconciliation spending cut bill eliminated all mandatory spending to administer higher education programs, ED's budget includes \$600 million in new discretionary funding for that purpose, which simply switches the cost from mandatory to discretionary spending and precludes the use of these scarce appropriations for any new aid to students.

***Funding Cut for Existing Programs Under the No Child Left Behind Act (NCLB) Act*** — The NCLB Act authorizes \$39.4 billion for elementary and secondary education programs for 2007, including \$25.0 billion for Title I grants to states. Yet, the President's budget cuts overall funding for existing NCLB programs, freezes Title I at \$12.7 billion, adds its new high school and math programs, and still provides only \$24.0 billion overall – \$15.4 billion below the authorized level.

## **Veterans**

***Funding for Veterans' Medical Care*** — The budget provides \$35.8 billion for appropriated veterans programs, which is \$2.6 billion above the enacted amount for 2006 and \$1.5 billion above the amount needed to maintain purchasing power at the 2006 level. Beyond 2007, however, veterans funding is cut in almost every year. Over five years, the budget cuts appropriated veterans programs \$10.1 billion below the level estimated to maintain purchasing power at the 2006 level. Almost all appropriated funding for veterans goes to provide medical care and hospital services.

***Enrollment Fee and Increased Co-payments for Veterans*** — The budget imposes a \$250 annual enrollment fee for VA health care services and increases pharmacy co-payments from \$8 to \$15 for Priority 7 and Priority 8 veterans. These are veterans without service-connected disabilities rated above zero percent who have incomes above \$26,903. The budget assumes collections totaling \$2.6 billion over five years from raising fees on veterans. Both of these policies were proposed in the last three budgets and Congress rejected them each time.

***Increased Medical Care Fees for Military Retirees*** — The budget increases enrollment fees and deductibles for military retirees under the age of 65. This proposal assumes savings of \$735 million for 2007.

## **Environment**

***Environmental Protection Measures Cut*** — For 2007, the President's budget once again cuts funding for the Environmental Protection Agency (EPA), providing \$7.3 billion in appropriations, a \$304 million decrease from the 2006 enacted level. This is mainly attributable to cuts in programs ensuring the provision of clean water.

***Administration Continues to Press for Drilling in the Arctic National Wildlife Refuge*** — In spite of the highly controversial nature of this proposal, for the sixth consecutive year the

President's budget assumes opening the Arctic Refuge to oil and gas exploration. Although the revenues are assumed in the budget, the Administration cannot implement the proposal without Congressional approval (attempts to open the Arctic Refuge failed last session). Over the 2007-2011 period, the President's budget includes \$4.0 billion from lease bonuses for the federal treasury and \$4.0 billion collected and distributed to the State of Alaska.

## **Other Accounts**

***NASA Funding Increases by Half a Billion Dollars*** — In contrast to the budget's cut in overall domestic services, funding for the National Aeronautics and Space Administration (NASA) increases by 3.2 percent (\$519 million), to a total of \$16.8 billion for 2007. Within that total, the budget provides a \$1.3 billion (76.4 percent) increase for continued development of a new vehicle to return humans to the moon, and from there eventually launch flight to Mars. To help offset that cost, the NASA budget cuts funding for the shuttle by \$371 million (8.4 percent), providing \$4.1 billion for 2007; NASA plans to return the shuttle to flight this year to service the International Space Station and the Hubble telescope, and then retire it by 2010.

## **Defense and Homeland Security**

***\$120 Billion for Operations in Iraq and Afghanistan*** — The budget sets aside \$120 billion of new emergency funding for operations in Iraq and Afghanistan – \$70 billion of which is for financing military operations through the remainder of 2006, and \$50 billion of which is for operations in 2007. The \$70 billion of new 2006 emergency funding is in addition to the \$50 billion already passed in the 2006 defense appropriations bill and increases total 2006 supplemental funding to \$120 billion. This is nearly \$20 billion more than the amount of supplemental funding appropriated for 2005. For 2007, \$50 billion will be woefully inadequate to finance operations for the entire year given the current rate of spending. The budget includes no funds after 2007 for operations in Iraq and Afghanistan.

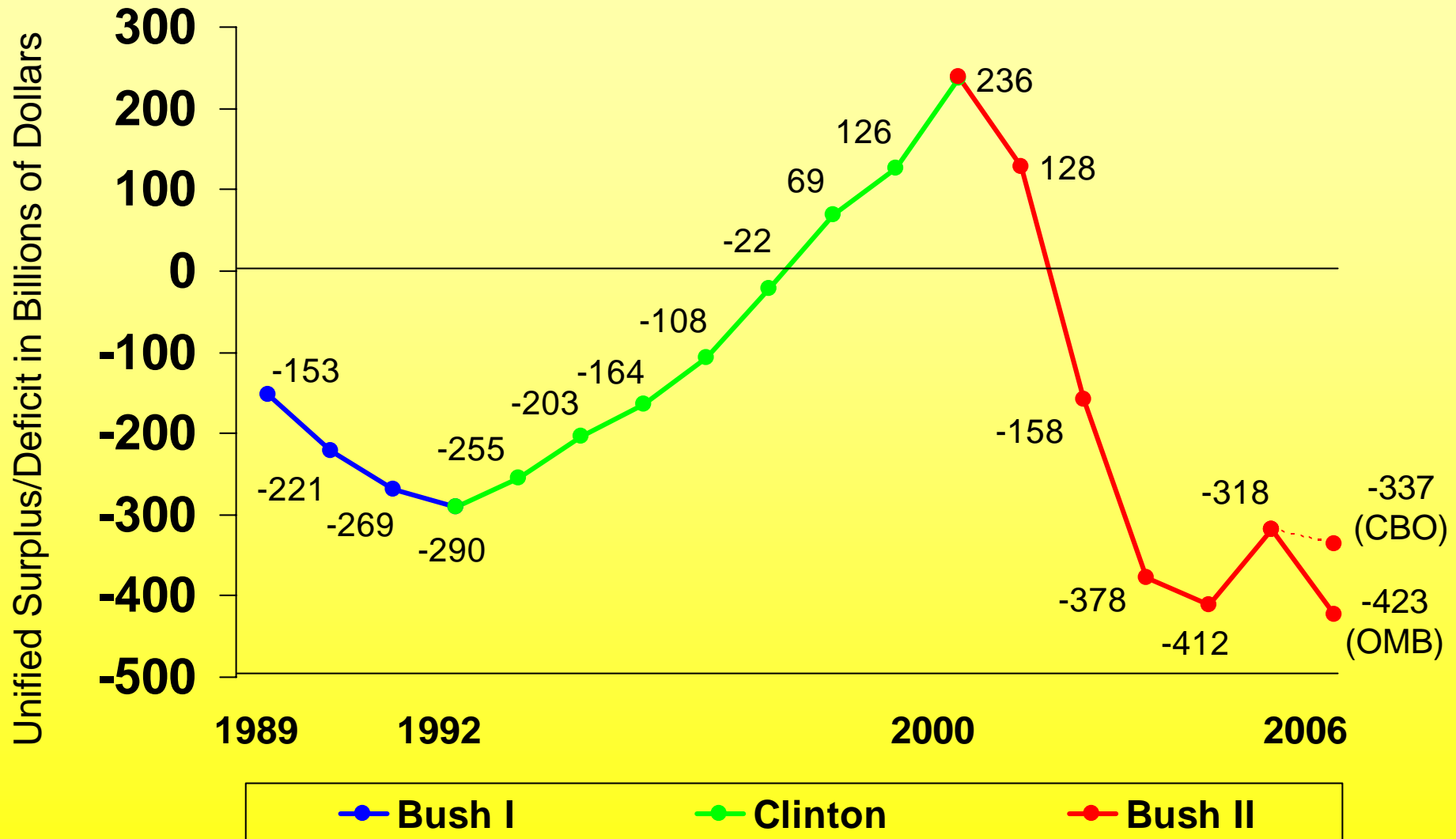
***Increased Funding for National Defense*** — The budget for regular appropriated Function 050 (National Defense) programs is \$459.7 billion. This represents an increase of \$27.9 billion, or 6.5 percent, above the 2006 enacted level, and an increase of \$16.3 billion, or 3.7 percent, above the amount that is needed to maintain purchasing power at the 2006 level, after excluding funding for the war. Over the next five years, the budget increases funding for appropriated defense programs by \$150.1 billion above the amounts needed to maintain purchasing power at the 2006 level (again excluding the war funding provided in 2006).

***Homeland Security Funding*** — The Administration re-categorized some Department of Defense and Coast Guard homeland security programs. Consequently, the budget's homeland security funding totals are approximately \$7 billion greater in each year than they otherwise would be. The President's budget includes a total of \$58.3 billion for all homeland security activities for 2007, \$3.4 billion more than the amount enacted for a similar category of programs for 2006. These totals include mandatory and discretionary programs (including homeland security funding for the Department of Defense and homeland security activities that are fee-

funded). The \$3.4 billion increase is partially attributed to the budget's inclusion of increased aviation security fees on both passengers and air carriers. The budget assumes collections over five years totaling \$9.7 billion from these fees. Net appropriations for domestic homeland security activities (a total that excludes all national defense and international affairs funding as well as fee-funded activities) for 2007 total \$29.3 billion. The 2007 domestic total reflects a \$1.7 billion (6.1 percent) increase above the enacted amount for 2006.

# Backsliding Into the Deficit Ditch

*From Deficit to Surplus to Deficit Again*



# Another Record Deficit

*The Last Four Years, The Four Largest Deficits in History*

<u>Rank</u>	<u>Year</u>	<u>Deficit</u>
1 <sup>st</sup>	2006	-\$423 Billion
2 <sup>nd</sup>	2004	-\$412 Billion
3 <sup>rd</sup>	2003	-\$378 Billion
4 <sup>th</sup>	2005	-\$318 Billion

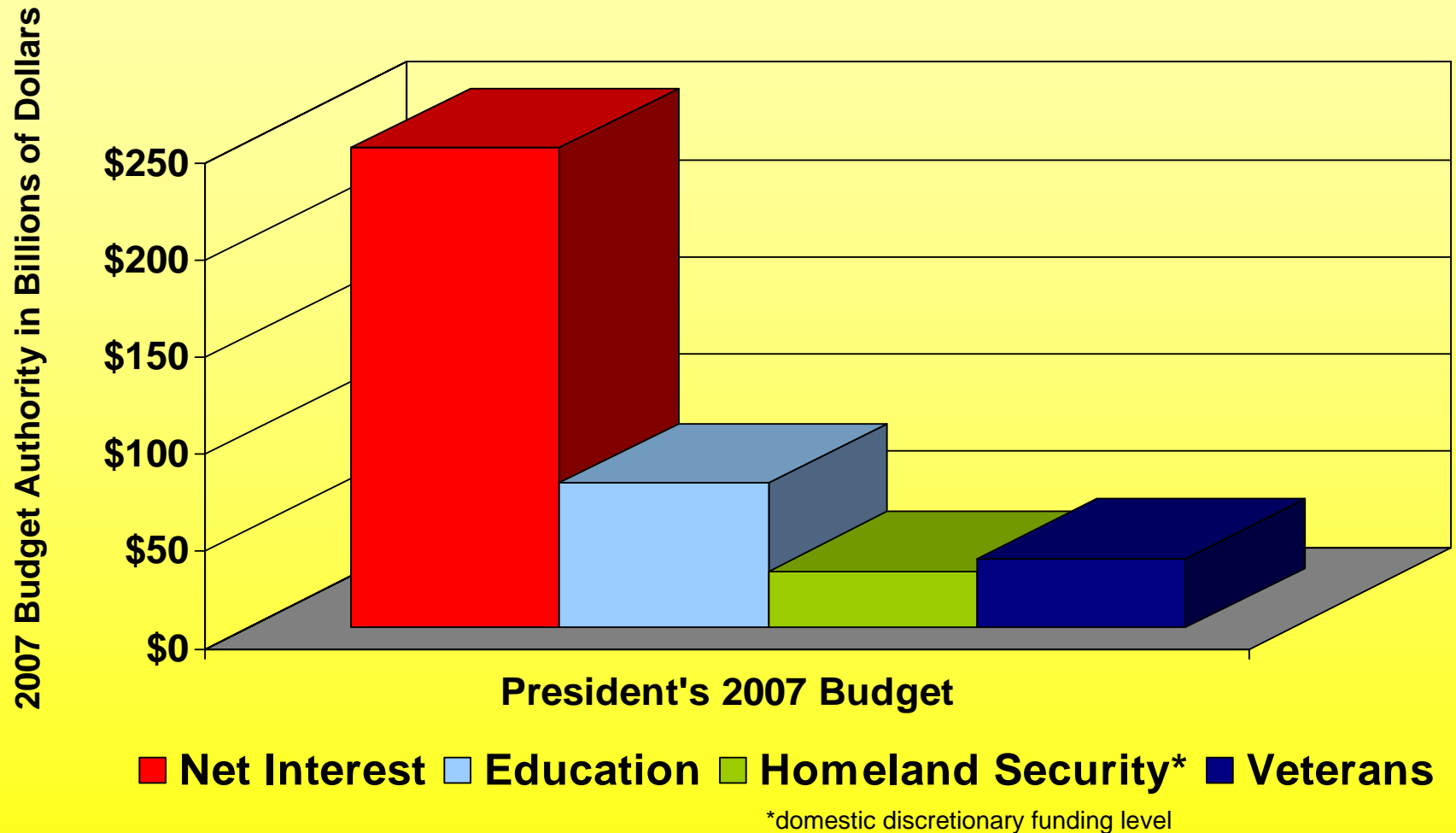


# **Bush Deficit Estimates Omit Major Costs**

*Realistic Deficit Picture Much Worse Than Administration Admits*

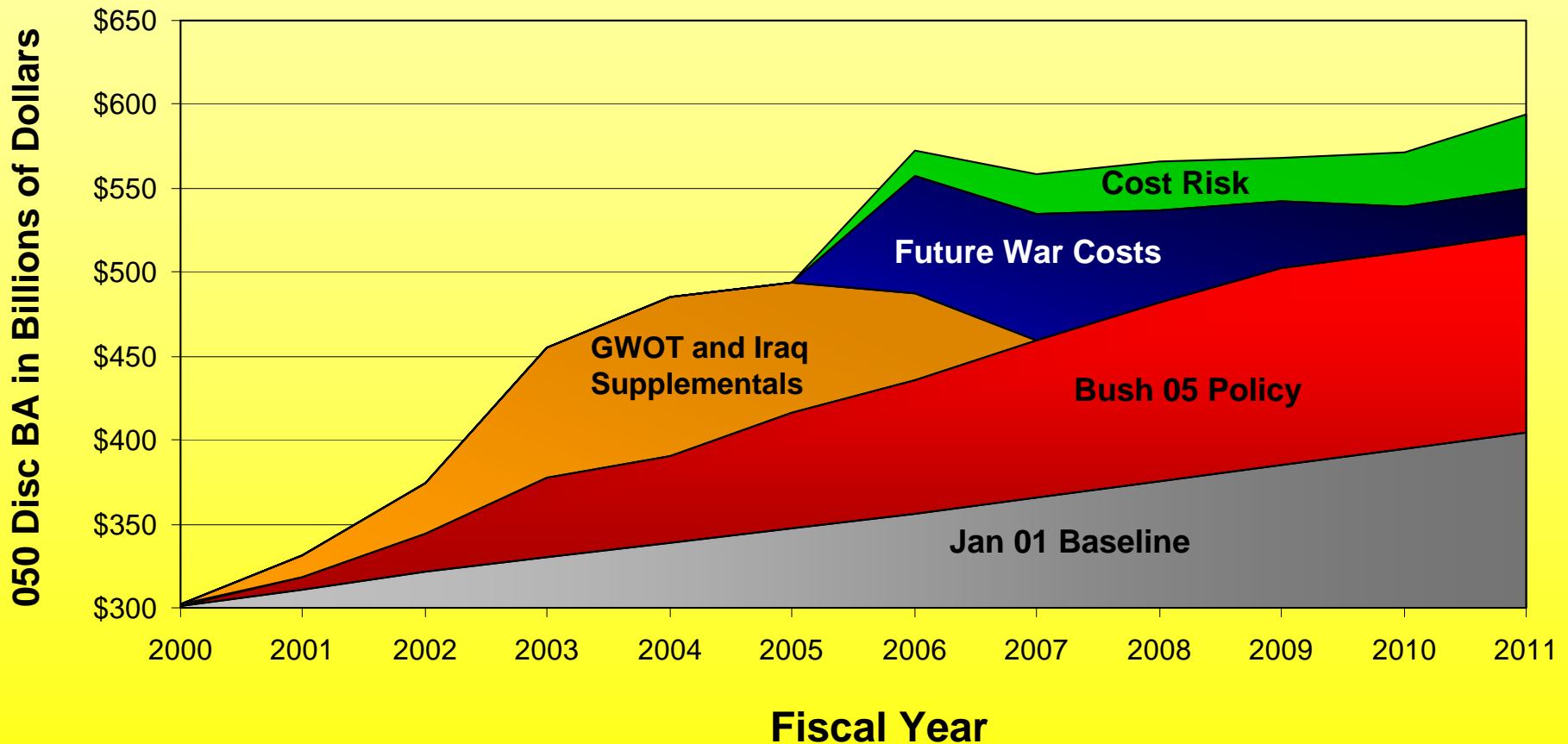
- Continued Deficits For 2012-2016
- Cost of Tax Cuts From 2012-2016
- Cost of Social Security Privatization From 2012-2016
- Cost to Repair AMT Beyond 2006
- Realistic War Costs Beyond \$50 Billion for 2007
- Additional Debt Service

# Interest Payments on Debt Dwarf Other Priorities



# Increased Cost of Defense Under Bush Administration

*With Estimate of Future Contingency Costs*

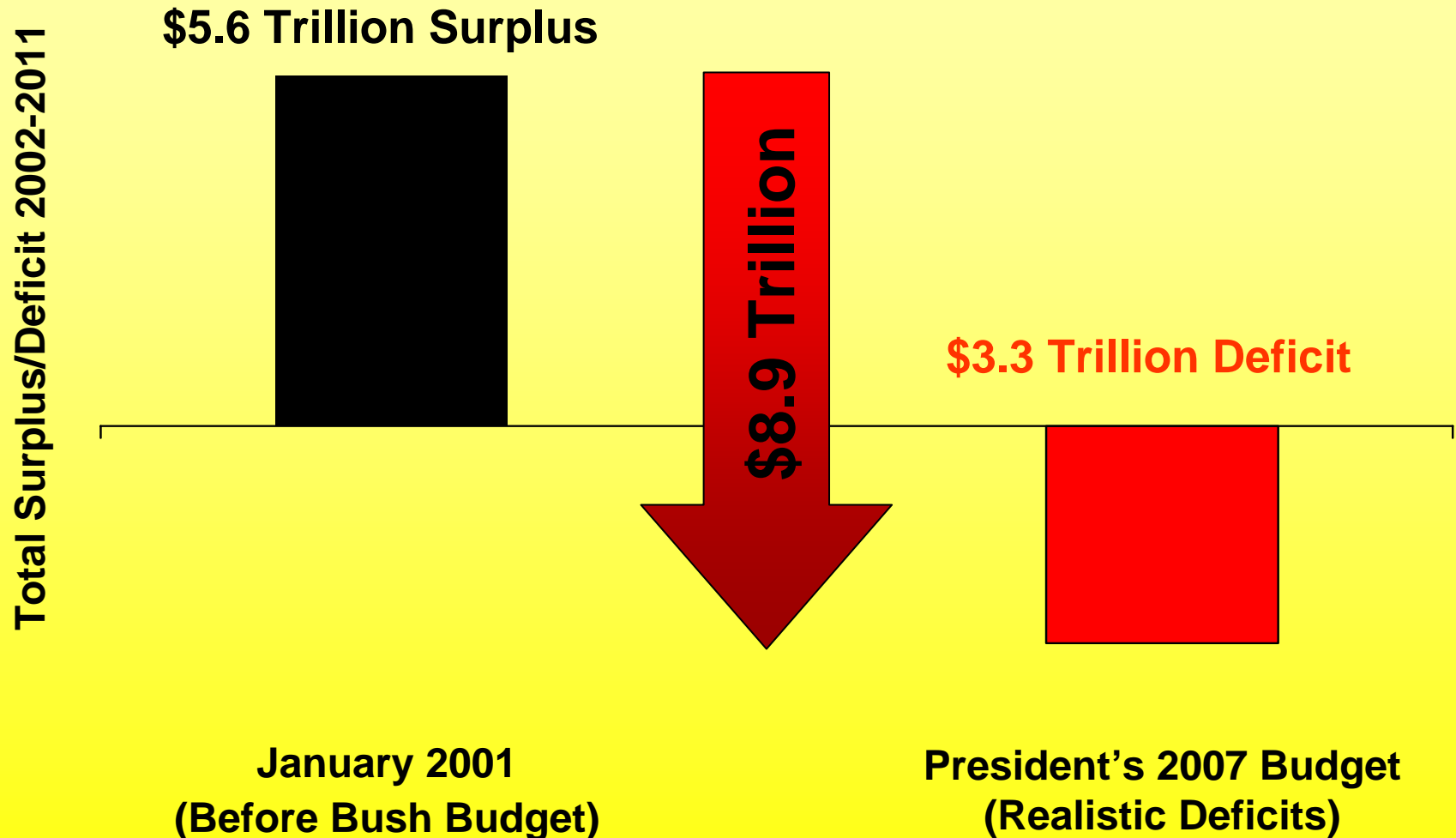


# Defense Increases During Bush Administration

National Defense Discretionary Budget Authority in Billions of Dollars

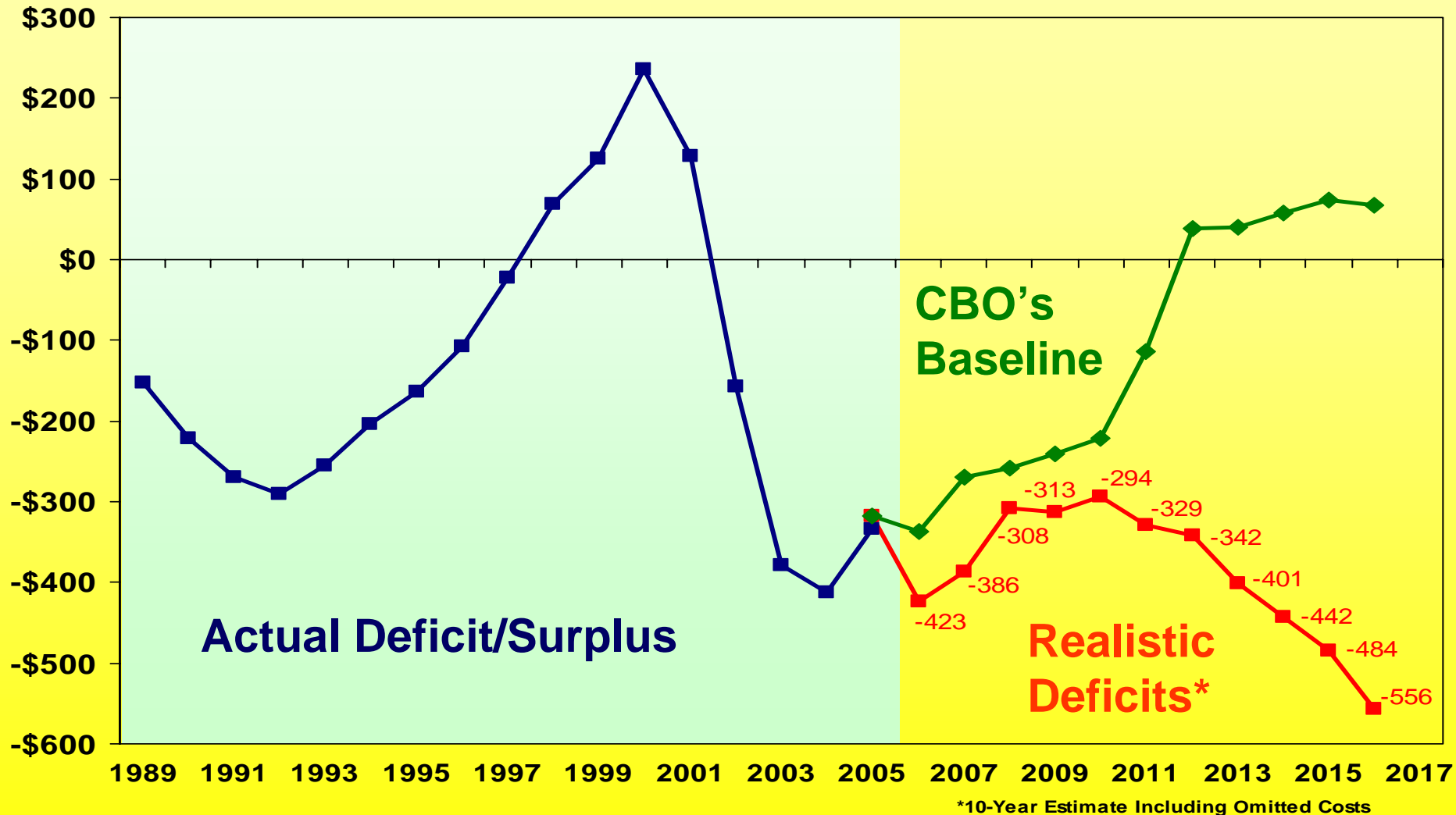
	<u>2002- 2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2002- 2011</u>
CBO January Baseline 2001	991.0	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding War Funding	120.6	68.6	79.4	94.2	107.2	117.6	117.8	118.2	823.8
Iraq/Afghanistan/ Noble Eagle	189.8	81.9	122.0	75.0	55.0	40.0	27.0	27.0	617.7
Cost Risk	-	-	15.1	24.1	29.4	26.2	32.0	43.4	170.2
Total Increase	310.4	150.5	216.5	193.3	191.6	183.9	176.8	188.7	1,611.7
Total Bush Defense Program	1301.5	497.9	572.8	558.8	566.5	568.4	571.3	593.5	5,230.8

# Surplus Declines \$8.9 Trillion Under Republican Policies



# Realistic Estimate Shows Bleak Deficit Outlook

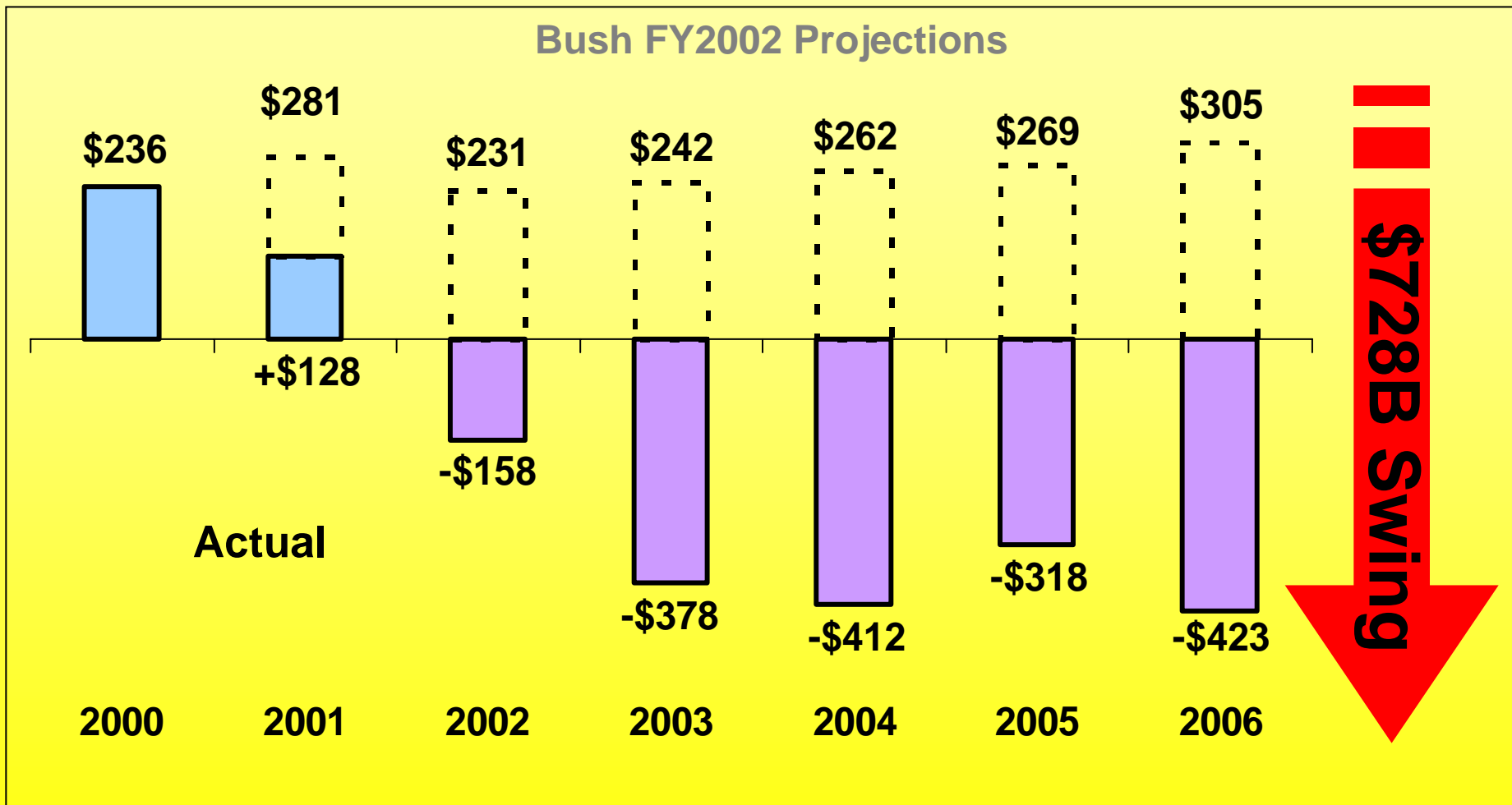
*Deficits in Billions of Dollars*





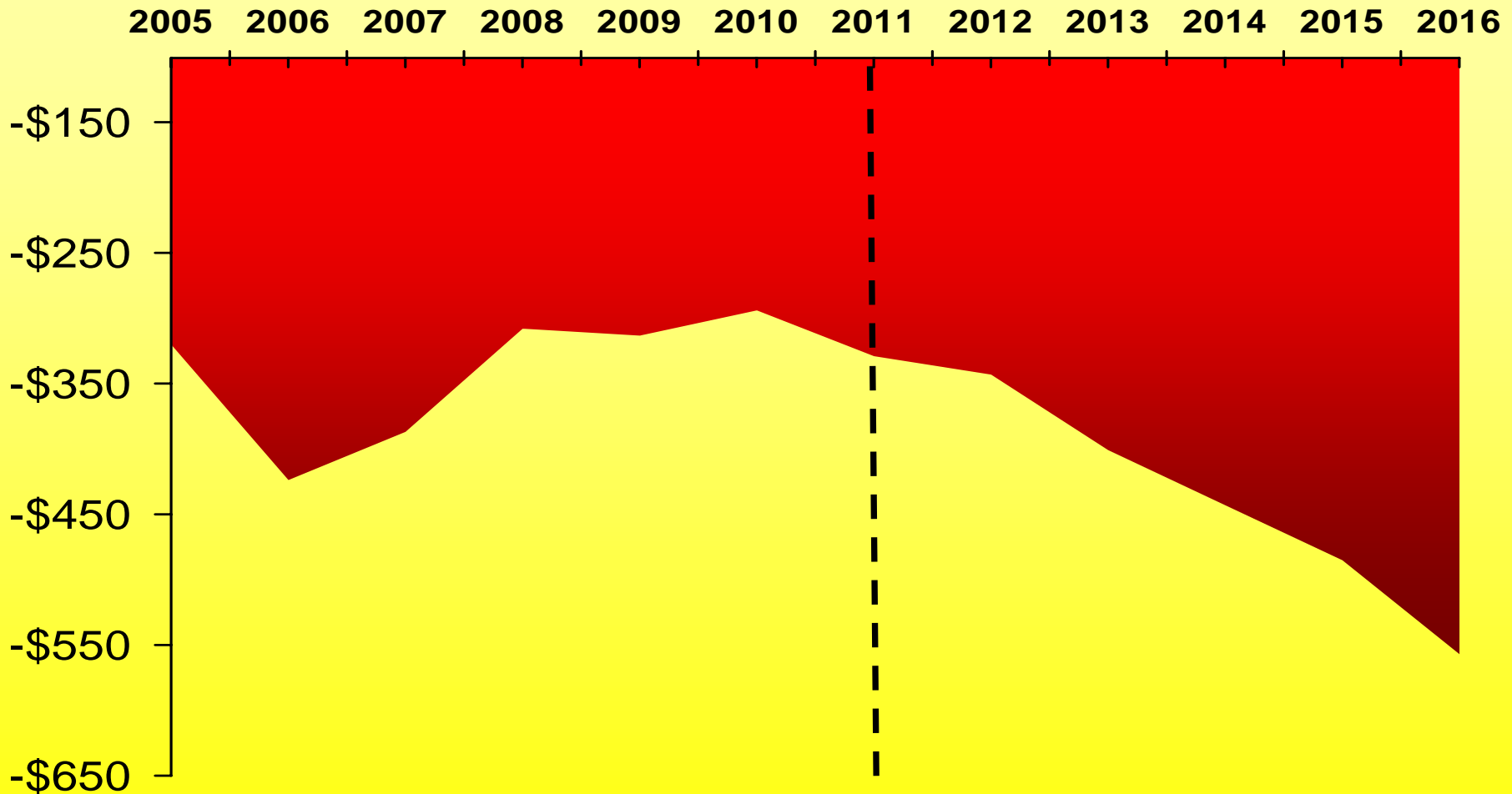
# Projected Surpluses Become Huge Deficits

*Actual and Predicted Budget Surpluses and Deficits in Billions*



# President's Budget Provides No Path to Improvement

*Realistic Bush Deficit in Billions, Including Omitted Costs*



# Republicans Increase the Debt Limit by **\$3 Trillion**

*Debt Limit Increases, Billions of Dollars*

June 2002	<b>\$450</b>
May 2003	<b>\$984</b>
November 2004	<b>\$800</b>
Pending Increase	<b>\$781</b>
Total Increases	<b>\$3,015</b>

# Public Debt Load on Economy Still Increasing

*Debt as Percentage of GDP*

2001	33.0%
2002	34.1%
2003	36.1%
2004	37.2%
2005	37.4%
2006	38.5%
2007	39.2%

## The President's 2007 Budget

Billions of Dollars	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	Total 2007-2016
CBO Baseline	-337	-270	-259	-241	-222	-114	38	40	57	73	67	-832
Remove Repeating Supplemental	0	43	67	85	95	104	111	119	126	134	143	1026
CBO Baseline w/o repeating supp	-337	-227	-192	-157	-127	-10	148	158	184	207	209	194
<b>The President's Budget</b>	<b>-423</b>	<b>-354</b>	<b>-223</b>	<b>-208</b>	<b>-183</b>	<b>-205</b>						
<b>Omitted Items and the Second Five Years</b>												
Tax Policies*							-265	-280	-292	-303	-315	-1456
Entitlement Programs							19	20	21	25	26	110
Defense Appropriations							-35	-35	-36	-37	-38	-182
Non-Defense Appropriations							44	46	48	49	50	238
Social Security Reform							-96	-115	-127	-140	-153	-631
Reconciliation Spending Cuts							14	13	11	11	11	60
Repair AMT**		-22	-45	-55	-66	-77	-88	-101	-114	-130	-147	-844
Ongoing Military Operations**		-9	-37	-43	-33	-29	-29	-29	-29	-30	-30	-298
Subtotal of Omitted Items		-31	-81	-98	-99	-106	-436	-481	-520	-555	-596	-3002
Debt Service		-1	-3	-8	-13	-18	-55	-79	-106	-136	-170	-589
Total Changes		-31	-85	-106	-112	-124	-491	-560	-626	-692	-766	-3591
<b>Resulting Deficits</b>	<b>-423</b>	<b>-386</b>	<b>-308</b>	<b>-313</b>	<b>-294</b>	<b>-329</b>	<b>-342</b>	<b>-401</b>	<b>-442</b>	<b>-484</b>	<b>-556</b>	<b>-3857</b>

\* Includes outlay effects

\*\* CBO estimates of policy reduced by amounts included in the President's Budget

negative items make deficits worse

Debt Service costs based on CBO's January estimates

Baseline estimates assume tax cuts expire as written in law and 2006 emergency supplemental funding repeats every year and grows with inflation